Governance systems in family SMEs. The substitution effects between family councils and corporate governance mechanisms

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The main objective of this article is to explore the role of family councils vis à vis corporate governance mechanisms. Particularly, the article explores whether family councils perform their family governance distinctive role or if they also substitute corporate governance control mechanisms in performing their own roles. Based on a sample of 243 Italian family SMEs, our research findings show that the family council partially substitutes the shareholders' meeting and the board of directors in playing the corporate governance roles, respectively, of ownership and monitoring. These findings are interpreted in the light of both agency and relational perspectives.

Key words: Corporate governance, family councils, boards of directors, agency theory, stewardship theory

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Introduction

This article is about governance systems in family small and medium sized enterprises (SMEs), meaning by governance system the set of governance mechanisms - both individual and collective - in charge of directing and controlling an organization (Charkham 1994).

Corporate governance systems are typically hierarchical (Johnson, Scholes 2001), and they are based on agency theory assumptions about the need of contractually assigning distinct governance roles to governance mechanisms at different levels (Jensen, Meckling 1976). There are three basic corporate governance roles and mechanisms in this perspective: the ownership role, the monitoring role, and the leading role. The shareholders' meeting plays the ownership role of control over the board of directors (Charkham 1999); the shareholders' meeting also delegates the board a monitoring role over the CEO and his/her team (McNulty, Pettigrew 1999; Charkham 1999); the CEO is assigned the role to lead the company (Minichilli et al. 2009; Finkelstein, Hambrick 1996; Fayol 1949). Every role implies different tasks to be performed by each mechanism (Huse 2003; Zahra, Pearce 1989). Corporate governance systems can be quite articulated, and not only in large firms, but in SMEs as well (Brunninge et al. 2007; Gnan, Montemerlo 2006; Gubitta, Gianecchini 2002; Zahra et al. 2000). Still, and despite most firms are small and medium sized and family-owned, the topic of governance in family SMEs is relatively recent and it is mostly focused on boards of directors (BODs). Particularly, studies show that BODs of these firms have peculiar characteristics (Pieper, Klein, and Jaskewiecz 2008; Fiegener 2005; Forbes, Milliken 1999; Corbetta, Tomaselli 1996) and they may strongly contribute to value creation (for example Van den Heuvel, Van Gils, and Voordeckers 2006; Huse 2000; Castaldi, Wortman 1984).

Our study takes a broader perspective as it is one of the first to investigate family SMEs' governance systems and their various mechanisms at both corporate level - that is looking at the agency-based hierarchy - and family level. At family level, governance systems, mechanisms and roles are relevant concepts as well as in firms, as family has to be directed and controlled to protect both its intangible assets (unity, trust, values, and so on) and its tangible ones; when tangible assets include company ownership, the focus of family governance is the relationship between family and businesses. The most important family governance mechanism is the family council, that is regular gatherings of adult family members (sometimes all family members, other times a group of family representatives) entitled to design and manage the family-firm relationship in a certain generation and to plan it for the next generation (Gallo, Kenyon 2004; Carlock, Ward 2001). The family council is generally analyzed in a relational perspective. Particularly, stewardship studies highlight that family councils facilitate social interaction, which develops a common sense of stewardship, and consequently unity in family ownership and commitment of each individual member to protect business continuity and pursue family owners' common interests (Salvato 2002; Mustakallio, Autio 2001). This is one of the few studies on family councils in SMEs, as they are generally analyzed in the context of large families owning large groups (Gnan, Montemerlo 2006; Suàre, Santana Martin 2004).

This is also one of the few studies that investigate the roles played by governance mechanisms. Particularly, the article's main objective is to explore the roles and tasks of family governance mechanisms like family councils vis à vis corporate governance mechanisms such as shareholders' meetings, BODs, and chief executive officers (CEOs). Based on an exploratory survey on 243 Italian family SMEs, we have found that a substitution effect operates and makes the family council go beyond its family governance role to take on some roles of the corporate governance hierarchy, and notably some ownership roles of the shareholders' meeting and some monitoring roles of the board of directors. Findings are interpreted in the light of both relational theories and agency theory, joining the theoretical conversation on the importance, to which scholars are more and more sensitive, of matching the relational perspective of stewardship and the contractual one of agency to go deeper into shedding light on family business governance (Braun, Sharma 2007; Miller, Le Breton-Miller 2006; Dyer 2006; Corbetta, Salvato 2004). The exploratory nature of the study is mainly due to the survey's low response rate (and also to some missing information about the overlap of governance roles played by individual family members that is typical of SMEs and that will be addressed in discussion and limitation sections). Also, in Italy BODs are not mandatory as it happens in other countries, which limits findings' generalizability. However, as not much empirical evidence is available on family and corporate governance in SMEs, we found that even an exploration could make a contribution and so it was worth pursuing with the available data.

As to contributions, the article has empirical as well as theoretical and practical ones.

Empirically, the article contributes to a deeper understanding of governance in family SMEs, as it explores governance systems concerning their family and corporate articulation, the roles that various mechanisms play and the extent to which they play them.

Theoretically, the article contributes to the conversation on agency and relational perspectives, showing that they complement each other. In fact, on one side corporate governance systems are agency-based in terms of the hierarchical mechanisms they feature and the roles these mechanisms are legally and contractually assigned. On the other side, we suggest that the family council might intervene in the corporate governance hierarchy and replace part of its control roles for relational, stewardship-based reasons.

A practical contribution of the study is that it reflects on the possible pros and cons of substitution of corporate governance mechanisms by the family council, and on the implications for family and firm; thereby, it may help SMEs' owning families design and implement their governance systems.

The article proceeds in four sections. First, reference theories and concepts are presented, and hypotheses are derived. In the second section we describe the research methods and the sample we used to test the hypotheses. The main findings are shown in the third section. In the fourth section we discuss these findings, reflecting on limitations, implications for family firms and directions for future research.

1. Agency and relational perspectives: literature review and hypotheses

In this section we present our theoretical references and we derive three hypotheses on the relations between the family council and some corporate governance mechanisms.

The agency-based contractual perspective

Agency theory is one of the literature mainstreams that look at corporations in a contractual perspective. The key issue is how to align interests of owners-principals and managers-agents overcoming the agency threat, which brings about various agency costs to perform ad hoc monitoring activities and operating systems (Eisenhardt 1989; Fama, Jensen 1983; Fama 1980; Jensen, Meckling 1976). This is done through a clearly defined principal-agent hierarchy of corporate governance mechanisms with distinct roles. The shareholders' meeting, the BOD and the CEO are the key corporate governance mechanisms in this hierarchy and they take on three basic corporate governance roles, each one with specific tasks. First, the shareholders' meeting has an ownership role of shareholders' control over the board, that is main ownership tasks include the choice of board members and the control and evaluation of the board and its performances (Charkham 1999). Secondly, the BOD is assigned a monitoring role on behalf of owners, which implies control over strategy and management (Charkham 1999; McNulty, Pettigrew 1999). So, monitoring tasks include, in essence, choosing the CEO, controlling and evaluating the CEO and his/her team; taking strategic decisions, and approving strategic plans (Nicholson, Kiel 2004; Hillmann, Dalziel 2003; Hillmann et al. 2000; Johnson et al. 1996). Thirdly, the CEO is delegated his/her own role of leading the firm, by elaborating the strategy and by coordinating and controlling how the organization executes it, which includes such tasks as choosing and evaluating managers, formulating strategic plans and formulating and controlling budgets to organize and monitor strategy implementation on an annual basis (Minichilli et al. 2009; Finkelstein, Hambrick 1996; Fayol 1949). External corporate governance mechanisms are also considered by agency theory, such as regulations, markets for managers and markets for control, but they are typical of public corporations and they might be either absent or not developed in SMEs (Fama, Jensen 1983).

Various agency scholars (for example Eisenhardt 1989; Fama, Jensen 1983; Jensen, Meckling 1976) argue there are not relevant agency costs in owner-managed firms, that is in many family SMEs (Ward, 2004 and 1987; Gersick et al., 1997). In fact, in these firms owners and managers' roles are often played by the same people, which naturally aligns interests and makes the principal-agent hierarchy much less defined, mixing up different governance roles and tasks (Fama, Jensen 1983, p. 307). Anyway, internal corporate governance mechanisms remain subject to agency-based norms that must be accomplished, whether such mechanisms are working or not. What is more, as soon as the company evolves from the pure "owner-manager" model, the typical agency threats re-emerge and so does the need of making some principal-agent hierarchy work. This happens, for instance, in family firms (including SMEs) when non-family managers are hired, or when ownership gets differentiated between managing and non-managing family owners with generational transitions (Gnan, Montemerlo 2006; Corbetta, Montemerlo 2003; Chua, Chrisman, and Sharma 2003; Gubitta, Gianecchini 2002).

The family nature of firms is also traditionally assumed to reduce agency costs, as family relations between key decision-making actors imply higher interest alignment and less information asymmetries between owners and managers. Besides, these relations develop over a long-term horizon and they are based on kinship, sentiments, trust and reciprocal altruism that are supposed to counter-balance the opportunistic, profit-maximizing behaviours assumed as intrinsic by agency; all this is supposed to reduce moral hazard and related monitoring requirements (McConaughy 2000; Harvey 1999; Fama, Jensen 1983; Jones 1983). But other studies have shown that family nature can actually bring about family-specific agency problems that may stem from asymmetric altruism (Chrisman et al. 2004; Schulze, Lubatkin, and Dino 2003; Anderson, Reeb 2003; Schulze et al. 2001), conflicts of interest between family members in different roles (Chrisman et al. 2003; Schulze et al. 2001), conflicts of interest between family and non-family members (Villalonga, Amit 2006; Chrisman et al. 2004; Daily, Dollinger 1993), and conflicts of interest between family (majority) and family or non-family (minority) shareholders (Villalonga, Amit 2006). Specific agency problems include nepotism, incongruity between executives' and family's goals, lacking market discipline, self-control, adverse selection, managerial entrenchment and moral hazard (Gomez-Mejia et al. 2001; Jensen 1998; Bruce, Waldman 1990; Morck, Schleifer, and Vishny 1988; Buchanan 1975).

In summation, agency theory still remains a reference theory for family SMEs. Not all of them are "purely" owner-managed despite the small and medium size; that is, agency issues might be some times, but not always reduced as small and medium size can co-exist with articulated ownership and management. Moreover, family-specific agency problems may exist anyway. Also, agency theory inspires the hierarchical form and the legal obligations of governance systems, regardless of size, in most countries. et al. But no definite conclusions have been reached yet about the "net effect" of size and family factors on overall agency costs and on consequent corporate governance needs. Besides, extant research shows that corporate governance mechanisms are often held "on paper", questioning the actual efficacy of agency –based systems (Huse 2000; Melin, Nordqvist 2000; Corbetta, Tomaselli 1996). On top of that, agency theory is generally acknowledged not to go deep into the family nature of firms - which goes far beyond its contractual-based logic - and particularly not to capture all distinctive traits of family ownership and their implications for family business governance and management.

To contribute to solve such controversies it is essential to check to what extent corporate governance mechanisms such as shareholders' meeting, BOD and CEO play their agency-based control roles. In any case, agency can hardly be considered the only theoretical reference for family business governance. A relational perspective, and particularly a stewardship one, is required as a complement and we deal with it in the following paragraph.

The relational perspective

The relational perspective focuses on common interests as purposes to which human beings are intrinsically motivated and on how to accomplish them by means of governance systems that operate in a cooperative, non-contractual logic. As this logic is prominent in family firms, the relational perspective has emerged as a particularly interesting one to integrate agency in family businesses studies (Miller, Le Breton-Miller 2006; Corbetta, Salvato 2004; Mustakallio, Autio 2001).

The relational perspective encompasses various theories such as stewardship, social capital and resource dependence. We focus on stewardship theory, which traditionally describes agents' behaviour in terms opposed to agency theory. In fact, it represents agents with cooperative and pro-organizational attitudes and with a natural propensity to align their goals with principals' ones, due to a number of conditions like intrinsic personal features, needs and motivations, identification with the company and commitment to company values, power intended as a service, collectivistic company culture and participative and trust-oriented management philosophy (Miller, Le Breton – Miller 2006; Salvato 2002; Donaldson, Davis 1991). Stewardship-based values and behaviours are acknowledged to favour family firms‘ success in the long run (Aronoff, Ward 1992; Salvato 2002).

To develop stewardship-based values and behaviours, family governance mechanisms are fundamental as they keep the interface between family and business healthy by helping social interaction amongst family members. The most important family governance mechanism, as stated above, is the family council; other mechanisms may be present, especially in large and complex family groups, such as family assemblies, family committees, family offices (Ward, 2004; Gallo, Kenyon 2004; Carlock, Ward 2001; Lank, Ward 2000; Lansberg 1999); given their limited diffusion in family SMEs, we did not consider them.

The family governance role is composed by two tasks typically assigned to family councils (Gallo, Kenyon 2004; Carlock, Ward 2001). One task relates to designing and managing the relationship between family and business in the controlling generation. The other one is about planning the family-firm relationship for the next generation: in essence, it is about planning generational transition. These two tasks encompass a number of more detailed and interdependent activities (that may take place jointly and thereby be difficult to isolate in practice), such as: discussing and updating family values; setting principles and policies about family, ownership and business for leading and next generation; carrying on educational and recreational initiatives for present and future family owners; managing communication within owning family; formulating owning family's shared vision of the family business and communicating it to the BOD; keeping spouses, who are not owners but who groom future owners, informed on the business (Gallo, Kenyon 2004; Carlock, Ward 2001; Lansberg 1999).

In performing the mentioned tasks, family councils act as relational contexts that allow family members to express and discuss opinions, develop mutual trust, share values and vision and translate them into collective plans and actions more effectively than it might happen in corporate governance mechanisms formally regulated by law and practice, like shareholders' meetings and BODs (Miller, Le Breton-Miller 2006; Mustakallio, Autio 2001; Habbershon, Astrachan 1997). In turn, trust, shared values and vision nurture unity and commitment of family and non-family actors, considered by scholars as key conditions for family firms' success in the long run (Gallo et al. 2001; Lachapelle, Barnes 1998).

It has to be noticed that the mentioned studies have mostly analyzed family councils in large families in control of large firms, showing a progressive institutionalization process of such mechanisms (Melin, Nordqvist 2007), while hardly no research exists on family councils in SMEs. But the very few exploratory studies available suggest that family SMEs often make use of family councils for family governance (Gnan, Montemerlo 2006; Suàre, Santana Martin 2004), which makes them worth investigating in this type of companies as well.

On top of that, literature suggests that, due to their relational strengths, family councils may go beyond their family governance role and get involved into corporate governance (Lank, Ward 2000; Lansberg 1999; Gersick et al. 1997; Ward 1991 and 1987). This makes it essential to check what governance control roles are actually played by corporate governance mechanisms, and to explore whether family councils may act as partial substitutes of these mechanisms in family SMEs as well. We maintain that substitution occurs when a governance role (like ownership) is totally or partially covered by governance mechanisms that are not the correspondingly entitled ones (for ownership, by the family council and not by the shareholders' meeting). Substitution implies that, in presence of a family council, corporate governance control roles diminish: it is is total if a governance role is not played at all by its entitled mechanism but by other ones; it is partial if a governance role is played partly by its entitled mechanism and partly by others. We assume that, in our case, substitution of corporate governance mechanisms by the family council can only be partial, as the family council has no legal standing and so some agency-based hierarchy must always be working, at least to ratify the family council's decisions.

Hypotheses about substitution effects between family councils and corporate governance mechanisms

Based on our literature analysis, we propose three hypotheses about whether family council may partially substitute the shareholders' meeting, the BOD and the CEO in performing their respective corporate governance control roles.

As to the possible substitution of the shareholders' meeting by the family council, the shareholders' meeting is sometimes considered as an owners' council acting as a subset of the broader family council. Other times, it is highlighted as an ownership control mechanism that may either formally ratify some decisions taken by the family council, or in any case consult the family council before taking its governance decisions, that is decisions about choosing, controlling and evaluating the board and its performances (Lank, Ward 2000; Lansberg 1999; Charkham 1999). In family SMEs, ownership is most often closely-held and concentrated within family (Ward 2004; Gersick et al. 1997); so, ownership issues are closely and almost "naturally" related to family governance ones: for instance, board and company performance issues are directly connected to family wealth ones; new board members' appointment and control issues are often intertwined with education of next generation to governance. Moreover, SMEs' entrepreneurs hardly perceive ownership as a distinct role as they "mix it up" with management; when they have to play it in shareholders' meetings, they often feel "outside" the firm (Melin, Nordqvist 2000). In this context, following stewardship theory, a family council may be a better place for all family shareholders to take corporate governance decisions, leading to a partial substitution as follows:

Hypothesis 1a: When a family council is present, the corporate governance role of ownership played by the shareholder's meeting diminishes.

Substitution between the family council and the BOD might occur as, due both to firms' size and to family ownership concentration and involvement, corporate governance mechanisms often overlap in family SMEs (Johnson, Scholes 2002). Particularly, the shareholders' meeting tends to feature the same composition as the BOD (Melin, Nordqvist 2000; Corbetta, Montemerlo 1999; Gersick et al. 1997; Ward 1991; Fama, Jensen 1983). Thus, corporate governance roles of both ownership and monitoring might be played at the same table and the family might not only control as shareholder, but also direct the firm by approving strategy and plans, choosing and evaluating the CEO and controlling the whole executive team's behavior (Huse 2000; Melin, Nordqvist 2000; Corbetta, Tomaselli 1996; Ward 1991). Moreover, when a BOD copes with firm complexity and/or ownership evolution, entrepreneurs may feel outside their normal business activity and, again, perceive the board as closer to family than to the firm. Accordingly to stewardship, family councils could then be preferred by family directors to BODs - also because boards are subject to a number of law obligations as well as shareholders' meetings - to take corporate governance decisions in a less formal context that facilitates information exchange and discussion. There follows:

Hypothesis 1b: When a family council is present, the corporate governance role of monitoring played by the BOD diminishes.

Finally, family owners-directors are often so involved in the business (that they share as co-CEOs the leading role of choosing and evaluating managers, formulating strategic plans and defining and controlling budgets (Minichilli et al. 2009; Sharma 2004; Melin, Nordqvist 2000). Again, for stewardship-based reasons, the family council might be used for taking CEO-level governance decisions as well, which leads to:

Hypothesis 1c: When a family council is present, the corporate governance role of leading the company played by the CEO diminishes.

2. Methods

Research design, family firms and SMES' definitions

To test our hypotheses, we investigated the governance roles played by various governance mechanisms of family SMEs with family councils as compared with family SMEs without family councils. We used a quantitative deductive design and hypotheses were tested through questionnaires from a sample on 243 Italian family SMEs. Respondents were in most cases the CEOs and 94.3percent of them belonged to the owning family. We used a broad, control-based definition of family firms, that is more than 50percent of the shares had to belong to the owning family (Sharma 2004; Astrachan, Shanker 2003; Corbetta 1995), to investigate the largest variety of ownership structures - and thereby of governance systems. Analogous criteria were applied to define size ranges: we used a definition of SMEs broader than the European Union's one, to increase the likelihood of embracing a varied range of ownership structures and governance systems and of getting a better response rate. So, based on the North-American parameters of Canada and US (US SBA and Canadian Ministry of Industry), we assumed small firms to be companies with less than 250 employees and 50 million EUROs' turnover and medium-sized ones to be those employing 251 to 500 employees and totalling 50 to 250 million EUROs' turnover.

The sample

Italy features a very relevant presence of family SMEs, which represent round 84percent of incorporated companies (Gnan, Montemerlo 2008). By civil law, Italian businesses can take either the incorporated or the unlimited form. The first one includes joint stock companies and companies with limited liability, while the second one implies unlimited liability of owners. We made our survey by sending a questionnaire to Italian incorporated SMEs, as these are more likely to feature articulated governance systems and they represent a significant player in the Italian economy (49.1percent of total Italian employment; ISTAT 2004).

The empirical base for the study was drawn from AIDA database (Bureau Van Dijk Electronic Publishing), containing data of manufacturing and non-manufacturing incorporated SMEs, representative of the Italian population. 15157 firms were randomly extracted to be representative of the population by region, range of employees and industries. The questionnaire was mailed in October 2000; it was addressed to top executives, and particularly to either the CEO or to an equivalent senior executive, that is to knowledgeable people who must know the governance system deeply and whose answers have proved to be reliable, even if reporting self-perceptions, in anonymous surveys (Starbuck, Milliken 1988; Dillman 1978). Two follow-up letters and one replacement questionnaire were mailed after the initial mailing. The questionnaire consisted of six sections on firms' demographics, ownership, governance systems, strategy, performance, and succession.

Responses were collected through January 2001; the final data set includes 480 SMEs; the response rate was 3.2percent, which is low in absolute terms, but in line with those normally obtained in Italy (Giacomelli, Trento 2005; Corbetta, Montemerlo 1999). We conducted two tests that comforted us on the absence of sample biases. Firstly, we evaluated non-response biases with chi-square tests between our sample and the mailing list, finding no significant differences for industries ($\chi2$=0.025835, df=5), turnover ($\chi2$=0.047543, df=4) and employees ($\chi2$=0.073285, df=3). Moreover, across industries, classes of turnover and classes of employees, the response rates vary, but proportions of respondents are not statistically different (Fisher's Exact test) in the sample and in the mailing list (industries vs turnover, p=0.0234; industries vs employees, p=0.3751; turnover vs employees, p=0.03228). Secondly, we compared early respondents (first half) with late respondents (second half) (Armstrong, Overton 1977), finding no significant differences on industries, size (employees and turnover), firm age, and market characteristics.

(PLEASE INSERT TABLES 1-2 ABOUT HERE)

Among the 480 firms responding to the survey, the median number of employees was 22 and the mean number was 58 with a standard deviation of 89 (see tables 1 and 2). The median turnover was 3 million €. Almost half sample was composed by manufacturing firms. 398 firms (82.9 percent) were classified as family SMEs out of the 480 totally sampled.

We reduced the number of family SMEs from 398 to 243 firms by identifying sampled family firms with a BOD, based on whether respondents declared the firm had a board or not. In fact, having a BOD is not mandatory in Italy, as owners of incorporated firms can appoint a sole CEO instead of a board (while having a shareholders' meeting is compelled by law). It is interesting to notice that the sub-samples of firms with a BOD and firms without a BOD feature no significant differences, as reported in Table 3.

(PLEASE INSERT TABLE 3 ABOUT HERE)

Our analysis proceeded by dividing the 243 sampled firms with a BOD into two groups: i) family SMEs with a BOD and a family council (108 cases); ii) family SMEs having a BOD, but not a family council (135 cases). Descriptive statistics of both groups are presented in Table 4.

(PLEASE INSERT TABLE 4 ABOUT HERE)

The existence of a family council was also based on whether respondents declared that the firm had a family council or not. Following the definition of family council we asked respondents to acknowledge the presence of a family council in case regular gatherings took place involving adult family members and were recognised as a family council.

Firms with a family council represent 27.1 percent of the total sample of family SMEs (108 out of 398 cases) and 44.4 percent of family firms with a BOD (108 out of 243 cases). In Italy, no other empirical data exist about family councils in SMEs, but qualitative empirical references suggest these percentages are reasonable. Moreover, similar data are reported by a survey on Spanish family firms, featuring 25 percent of cases with a family council (Suàre, Santana-Martìn 2004), regardless a BOD is present or not; given the similarities between family business systems in the two countries, we were comforted about the family council incidence we found.

Firms with family councils are in average older than those without family councils (*sig.*=0.1) and have more family shareholders (*sig.*=0.01). No other significant differences exist between the two groups of firms with respect to number of employees, generation involved, number of shareholders, percentage of family ownership, percentage of shares held by the largest shareholder, number of board members, number of family board members, number of shareholders meetings and number of board meetings. Particularly, the mean number of board members in family firms with and without a family council was 3.8, which is comparable with figures about number of board members in other countries' SMEs (Fiegener et al. 2000; Gabrielsson, Winlund 2000).

Variables and measures

Dependent Variables

The three dependent variables are the OWNERSHIP ROLE OF THE SHAREHOLDERS' MEETING, the MONITORING ROLE OF THE BOD, and the LEADING ROLE OF THE CEO. We chose role coverage as our variables' measure in order to explore how much each governance mechanism plays its distinctive role, independently on either the process by which the role is played (for example, in terms of frequency) or the relative importance of the tasks that are included in the role itself. Variables have been built up through the following steps. Firstly, for each of three governance roles we categorized the corresponding governance tasks based on the literature analysis presented in section 1. Secondly, using dummy coded questions in an ad hoc section of the questionnaire, respondents were asked to indicate whether or not each governance mechanism (the shareholders' meeting, the BOD, and CEO) performed all tasks composing the governance role. Every performed task was coded as 1 and every non-performed task was coded as 0. Thirdly, we calculated every role's coverage as the mean of the number of performed tasks out of the total tasks composing every governance mechanism's role. Particularly:

- as to the OWNERSHIP ROLE OF THE SHAREHOLDERS' MEETING, two items were related to this variable based on ownership role's tasks: Q1 on choosing board members; Q2 on controlling and evaluating the board and its performances (Charkham 1999). The variable is calculated as follows: mean of Q1's and Q2's performed tasks = (Q1+Q2)/2 (Cronbach's α = 0.74);
- as to the MONITORING ROLE OF THE BOD, four items were related to this variable based on monitoring role's tasks: Q3 on taking strategy decisions; Q4 on approving strategic plans; Q5 on choosing and evaluating the CEO; Q6 on controlling CEO, managers (Nicholson, Kiel 2004; Hillmann, Dalziel 2003; Hillmann et al. 2000; Charkham 1999; McNulty, Pettigrew 1999; Johnson et al. 1996). The variable is calculated as follows: mean of Q3's, Q4's, Q5's and Q6's performed tasks = (Q3+Q4+Q5+Q6)/4 (Cronbach's α = 0.88);
- as to the LEADING ROLE OF THE CEO, three items were related to this variable based on leading role's tasks: Q7 on formulating strategic plans; Q8 on defining and controlling annual budgets; Q9 on choosing and evaluating management (Minichilli et al. 2009; Finkelstein, Hambrick 1996; Fayol 1949). The variable is calculated as follows: mean of Q7's, Q8's and Q9's performed tasks = (Q7+Q8+Q9)/3 (Cronbach's α = 0.93)[1].

[1] For completeness' sake, we also measured the FAMILY GOVERNANCE ROLE that is how the family council covers its governance role. Two items were related to this variable based on family governance tasks: Q10 on designing and managing family-firm relationships; Q11 on planning generation transition (Gallo, Kenyon 2004; Carlock, Ward 2001; Mustakallio, Autio 2001; Lansberg 1999). The variable was calculated as follows: mean of Q10's and Q11's performed tasks = (Q10+Q11)/2 (α = 0.91). Besides, we measured how each of the three corporate governance roles and the family governance role were covered by all the other, non-corresponding mechanisms (for example monitoring role by shareholders' meeting and CEO). Actually, multiple responses were allowed, so that the same task could be attributed to

All the measures of role coverage have Cronbach's *αs* above the 0.6 value. Measures have also been evaluated in terms of individual item reliability, internal consistency, and discriminant validity (see Appendix 1). The psychometric properties of the multi-item measures (ownership role, monitoring role, and leading role) have been assessed simultaneously in one confirmatory factor analysis (*CFA*)[2] using *LISREL* 8.53. We interpreted the goodness of fit using the comparative fit index (*CFI*), the normed fit index (*NFI*) and the standardized root-mean-square residual (*SRMR*): see Hu & Bentler 1999; Hair et al. 1998. And, we used commonly accepted cutoff values ($CFI < .90$, $NFI < .90$, and $SRMR < .06$) as indicative of poor fit (for example, Zhao et al. 2007; Hair et al. 1998). The model presents a *RMSEA* value of 0.057 and a *SMSR* of 0.032. The goodness of fit indices values are: *Chi-Square* = 64.31, df=24; CFI=0.78, NFI=0.76. We assessed reliability by calculating a composite reliability for each construct (Fornell, Larcker 1981). Along with the reliability calculations, we also examined the parameter estimates and their associated t-values as well as the average variances extracted (Anderson, Gerbing 1988). The factor loadings range from 0.45 to 0.88 ($p<0.05$), and the average variances extracted range from 73 to 85 percent. The items were also found to be reliable and valid when evaluated based on each item's error variance, modification index, and residual co-variation. We established discriminant validity by calculating the shared variance between each pair of constructs and verified that it was lower than the variances extracted for the involved constructs (Fornell, Larcker 1981). The shared variances between pairs of all possible scale combinations indicated that the average variances extracted were higher than the associated shared variances in all cases.

The independent variable

different governance mechanisms. In other words, each of the eleven questions (Q1-Q11) was asked four times to each respondent, that is once per each of the four family and corporate governance mechanisms considered (family council, shareholders' meeting, BOD, and CEO).

[2] We also proceeded to test the CFA. No signs of problems (for example non convergence, non positive definite matrices, unreasonable standard errors, and so on) emerged. The model is empirically identified as shown by a converged solution, by absence of any out-of-bounds or unexpected parameter estimates and by absence of any warning or error message.

The independent variable was presence of a family council in the family firm (FAMILY COUNCIL). Existence of a family council was coded as 1; non-existence was coded as 0.

Control variables

In order to account for potential biases, several control variables were adopted in the analysis:

- year of foundation, as family firms might confuse governance roles and mechanisms and make substitutions because they are younger, that is they have little governance experience and little governance needs. Vice versa, older family firms might have more familiarity both with family councils and with the agency-based hierarchy as well as a higher need to respect their distinctive roles (Ward 1987; Lank, Ward 2000);
- number of employees, as smaller family firms – young or not - might face little complexity in family and company and so might devote less attention to governance and especially to the agency-based hierarchy (Melin, Nordqvist. 2000; Fama, Jensen 1983);
- industry, as a proxy of complexity such as number of employees (Fama, Jensen 1983);
- generation involved, as a proxy of governance experience such as year of foundation (Ward 2004; Lansberg 1999; Gersick et al. 1997);
- number of shareholders, also as a proxy of experience such as year of foundation and generation involved. In fact, number of shareholders tends to increase over time and generations (Ward 2004; Lansberg 1999; Gersick et al. 1997);
- number of family shareholders, for the same reasons as number of shareholders;
- number of board members, as a too high or vice versa a too small number might make it difficult for the board to work properly and thereby encourage substitution (Corbetta, Salvato 2004; Corbetta, Tomaselli 1996);
- percentage of family ownership, as the higher the percentage of shares, the higher the power of family and the more discretion the family might apply in using (and substituting) governance mechanisms (Miller, Le Breton-Miller 2006);

- number of family board members, as a proxy of family power like percentage of family ownership.

3. Analyses and results

We tested the hypotheses by comparing governance roles as covered by various governance mechanisms in the two groups of family firms composed, respectively, by those without family councils and by those with family councils.

We expect that if some substitution effect is there, all things being equal, corporate governance roles' coverage by their correspondingly entitled mechanisms (for example ownership role's coverage by the shareholders' meeting) will diminish when the family council exists. Univariate test results are presented in Table 5, which shows to what extent each corporate governance mechanism plays its role. That is, for each combination of corporate governance mechanism and governance role, mean percentages of role coverage featured in group 1 (family firms without family councils) and in group 2 (family firms with family councils) are compared and significance levels of differences are reported. In addition, the table reports percentages of corporate governance roles' coverage by the family council.

(PLEASE INSERT TABLE 5 ABOUT HERE)

Hypothesis 1a

The corporate governance role of ownership played by the shareholders' meeting is significantly diminished from a coverage of 36.9percent in group 1 to almost half, that is to 18.9percent, in group 2 where the family council is present.

We also looked at ownership role's coverage by the family council (53.9 percent) in group 2; this shows that the family council not only replaces the shareholder's meeting in performing the role of ownership, but is also much more involved in this role than the shareholders' meeting itself. The other corporate governance mechanisms partly cover the ownership role as well, with percentages that are diminished passing from group 1 to group 2. Particularly: BODs' coverage of ownership role passes from 12.7 (when there is no family council) to 7.0 percent (when the family council is there) and CEO's coverage of ownership role passes from 14.5 (with family council) to 9.8 percent (without family council). Thus, hypothesis 1a is supported.

Hypotheses 1b

The monitoring role's coverage by the BOD is significantly diminished when the family council appears, from a coverage of 19.3 percent in group 1 to 8.8 percent in group 2.

Besides, research findings show that the family council is the biggest performer of the monitoring role, as it covers it at 42.7percent in group 2. As we did for ownership, we also measured whether other corporate governance mechanisms cover the monitoring role, and we found that also in this case such coverage occurs with decreasing percentages passing from group 1 to group 2. Particularly: monitoring role's coverage by the shareholder's meeting passes from 16.7 to 10.1 percent and monitoring role's coverage by the CEO passes from 26.8 to 23.6 percent, respectively in group 1 and 2. So, hypothesis 1b is supported as well.

Hypothesis 1c

This hypothesis is not supported.

The leading role's coverage by the CEO is actually diminished from 32.8percent in group 1 to 23.8percent in group 2, but the difference between the two percentages is not significant.

It has to be noticed that the family council partly covers this role as well (38.8percent) and that so do the BOD and the shareholders' meeting, always in percentages that are reduced passing from group 1 to group 2. Particularly: shareholder's meeting's coverage of CEO's role passes from 13.3 to 8.3 percent and BOD's coverage of CEO's role passes from 16.6 to 9.2 percent, respectively in group 1 and 2.

We also conducted multivariate analyses of variance MANOVA (with Wilks' Lambda test) to control for possible sources of heterogeneity in the two groups (see Table 6), using the control variables mentioned above. The MANOVA confirmed the univariate results finding no impact from the control variables. Only the presence of a family council introduces significant differences concerning the ownership role of the shareholders' meeting and the monitoring role of the board of directors (*sig.* = .000), that is the dependent variables of hypotheses 1a and 1b.

(PLEASE INSERT TABLE 6 ABOUT HERE)

Follow-up analyses

As a follow-up of the results reported so far, we carried on further analyses about which tasks are taken over by family councils within corporate governance roles. These analyses, presented in table 7, show in more detail how extensively the family council goes beyond its own family governance role.

In fact, the family council partly covers the ownership role both choosing board members (at 60.3 percent) and controlling and evaluating the board (at 52.4 percent). As to the monitoring role, the family council especially covers two out of three tasks within this role, choosing the CEO (at 66.0 percent) and taking strategic decisions (at 45.4 percent). The family council also plays some leading role of the CEO by formulating strategic plans (44.7 percent). It has to be noticed that it is exactly for these roles and tasks that their corresponding corporate governance mechanisms mostly diminish their coverage in presence of the family council. That is, when the family council exists, the shareholders' meeting reduces both its ownership tasks, falling from a coverage of 43.4percent to 24.1 for choosing board members and from 39.7percent to 16.5 for controlling and evaluating them. The board mostly diminishes its coverage of taking strategic decisions (from 37.2 to 12.0percent) and choosing and evaluating the CEO (from 15.5 to 6.1percent). The CEO also loses his/her role especially in formulating strategic plans (from 31.2 to 7.9). These results enforce hypotheses 1a and 1b, both verified, and give some support to hypothesis 1c, although it was not verified.

(PLEASE INSERT TABLE 7 ABOUT HERE)

Robustness checks

In order to check the possible bias related to the low response rate of our sample, we conducted two different checks: A) two separate MANOVA analyses in two different sub-samples: i) manufacturing family firms and ii) non-manufacturing family firms; B) two separate MANOVA analyses to two different sub-samples: i) family firms where the most important shareholder owns more than 50 percent and ii) family firms where the most important family shareholder owns 50 percent of equity or less.

These four MANOVA analyses confirm the hypotheses' tests and they do not significantly differ in terms of results (see Tables 8 and 9), except for:

- year of foundation and number of employees, that introduce a significant difference concerning the monitoring role of BOD in manufacturing family firms. That is, the monitoring role of the board does not only depend on the presence of the a council: particularly, the larger the number of employees and the younger the company, the more active and focused we may expect the BOD. Size might make it necessary to have a BOD that adequately copes with complexity; young age might help setting up such a board without the constraints of a long family tradition of governance undistinguished from management;
- generation involved and number of family shareholders, that introduce a significant difference concerning the ownership role of shareholders' meetings in family firms where no shareholder owns more than 50percent of equity. Again, the ownership role of the shareholders' meeting is not only influenced by presence of the family council: particularly, the highest the generation and the more numerous family owners, the less "substituted" we may expect the shareholders' meeting to be by other mechanisms. This might be explained with the need of the shareholders' meeting to be accountable enough to represent the various interests of an extended group that might be composed by family owners from different generations and with different positions (managing and non-managing) in the family business.

(PLEASE INSERT TABLES 8-9 ABOUT HERE)

4. Discussion and conclusions

Contributions and implications

Our study reveals that family councils do exist in family SMEs, and that they partly substitute corporate governance mechanisms and, particularly, the shareholders' meeting and the BOD.

From the empirical point of view, this study is one of the very first to depict corporate governance systems and family councils in family SMEs. On one hand, we have found that a family council exists in about 27 percent of cases in our sample, which shows how this governance mechanism is not only typical of large family firms. Moreover, the family council not only features a high coverage of its own family governance role, but it also covers a large part of ownership and monitoring roles, to the extent of being the governance mechanism with the highest coverage of these roles. It even covers – although to a lesser extent - the leading role of the CEO. Thus, family councils are actually both family and corporate governance mechanisms that cut across the agency-based hierarchy (which is reflected in the numerous meetings they hold per year with respect to other mechanisms, see table 4). On the other hand, presence of family councils and the related substitution effect characterizes only a minority percentage of family SMEs, which highlights how family SMEs are articulated and varied in terms of governance systems. We assume that presence of family councils and related substitution effect might take place more often when either the same or most family members are both owners and directors. In these situations, the use of family councils could be especially appreciated as decisions might be taken more efficiently using one mechanism only, in a family atmosphere and with no law procedures to fulfill. In fact, we found that the overlap between family membership, ownership and board membership is high, but not total. To this respect, we asked some questions about adult family members' roles with respect to the company, and we found that: 83.9percent of all family members are also shareholders of the family company; 68.9 percent of all family members are also BOD members in the family company; 59.5 percent of all family members are at the same time shareholders and BOD members in the family company

From a theoretical point of view, our findings confirm the need to match agency with stewardship in family business governance studies (Miller, Le Breton-Miller 2006; Johannisson, Huse 2000). Agency seems to be little applied in family SMEs, given the low coverage the shareholders' meeting, the BOD and the CEO respectively feature of their agency-based roles. The relational perspective of stewardship seems to be very helpful to explain this low coverage vis à vis the diffusion of family councils and the partial substitution effect that may often bring them to replace the shareholders' meeting and the BOD in playing the ownership and monitoring roles. This does not mean that agency ceases to be relevant. Firstly, it inspires the legal setting up of corporate governance systems, which implies that corporate governance mechanisms must, even if partially, work, and in presence of a family council's substitution effect they must ratify family council's decisions. Secondly, and even more importantly, agency issues might be intensified in the future of family SMEs, as ownership complexity will increase: the number of family shareholders is expected to grow, bringing about more non-managing owners; at the same time, a number of family owners' exit processes and of non-family owners' entry processes will have to be managed; managerialization processes might increase as well (Gnan, Montemerlo 2008; Corbetta, Montemerlo 1999). Last, but not least, family business relational-based studies might broaden their focus and direct attention to family councils in family SMEs and not only in large family groups.

Moving from empirical and theoretical contributions to practical implications, our study's findings offer some hints on design and functioning of governance systems from the family and business side. In fact, many family firms seem to underutilize their corporate governance mechanisms to give space to less formal family ones, like the family council, for a number of corporate governance tasks. In a stewardship perspective, this may bring a number of advantages, as mentioned above, to keep commitment and unity, being most critical factors for family business continuity (Gallo et al. 2001). On the contrary, disadvantages might occur as long as the overlap between family members, family owners and family directors is reduced over time, which normally happens from generation to generation, and a clearer distinction of family and corporate governance roles and mechanisms is then required (Gallo, Kenyon 2004; Lank, Ward 2000); our study shows that family members' roles overlap is already a partial one. In summation, owning families may run a risk of inertia, that is they might keep ownership and monitoring roles not covered enough to cope with the intensification of agency problems that might occur in the future of family SMEs (Corbetta, Montemerlo 2009; Gnan, Montemerlo 2006). Besides, substitution is always partial, which might also generate some duplication of governance roles, with consequent inefficiencies. In this perspective, owning families and professionals that assist them might want to check if the current design and functioning of their shareholders' meetings and boards of directors are adequately active and focused to address present, but above all future complexity. This does not mean that family councils need to lose relevance, but as long as complexity increases they will need to be used as complements to corporate governance mechanisms - and so to concentrate on family governance, which is a fundamental basis on which good corporate governance lies in family firms - rather than as substitutes (Ward 2004; Corbetta, Montemerlo 2003). Consistently with what is recommended since the early phases of family business literature (Ward 1987), other studies suggest that complementarity can generate important synergies between different governance mechanisms and thereby generate far more positive effects than substitution (Poppo, Zenger 2002). In our case, good family governance would prepare good owners, directors and leaders, and vice versa good corporate governance would keep family satisfied about the business and motivated, united and committed as owner.

Limitations and directions for future research

This study stimulates various future research directions, also in relation to some of its limitations.

We have done an empirical study of Italian family SMEs. However, the existence of family councils may vary across different types of family businesses (Corbetta 1995) and also across countries. Therefore, our findings would have been stronger if similar results had been found in other contexts as well.

Another important limitation is that we did not precisely measure the composition and overlap of family and corporate governance mechanisms; we only collected information on family members' multiple roles as mentioned above, which can only be considered a proxy. So, further developments of our study should go deeper into how family councils are composed with respect to shareholders' meeting and BOD, as well as into the "complexity threshold" beyond which family councils should be clearly differentiated from corporate governance mechanisms and complement rather than substitute them.

Another direction for future research concerns the impact of family councils' presence. Does such presence lead companies to take different decisions than companies without family councils? Does it lead to superior performances?

Also, we actually considered the agency-based hierarchy as the reference model for corporate governance roles and tasks' definition. Considering that the functioning procedures that companies have to comply with are agency-based and also that many boards are just held "on paper", we used the stewardship theory to test if corporate governance control mechanisms may be substituted by family governance mechanisms like the family council, but not to analyze corporate governance roles based on the stewardship perspective. Particularly we did not measure the service and advice roles of the BOD as they are analyzed by stewardship and other relational theories (Corbetta, Salvato 2004). Are service and advice roles actually played by family SMEs boards and does the substitution effect concern these roles as well?

Finally, we suggested above how our study reinforces that agency cannot be a fully explanatory theory. Actually, agency might also work in a "hidden way". That is, the number of meetings of a certain corporate governance mechanism might hide those additional meetings in which board or shareholders' meetings' members gather informally. When this happens, board or shareholders' meeting members do take the decisions they are entitled to, but they do not take them in their official vest, to make processes more fluid and not to have to comply with all the bureaucracy involved otherwise. In this case, informal meetings feature the same members, but typically exclude the invited members such as auditors. Research future developments might explore the informal functioning of the agency-based hierarchy as well and its impact on the substitution effect involving family councils.

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Table 1.

The mailing list and the sample (1)

		Mailing list		Sample		Response rate
		Number	%	Number	%	%
Manufacturing	Small size	6048	39.9%	197	41.0%	3.3%
	Medium size	887	5.9%	33	6.9%	3.7%
Non manufacturing	Small size	6181	40.8%	190	39.6%	3.1%
	Medium size	2041	13.5%	60	12.5%	2.9%
Total		15157	100%	480	100.0%	3.2%

Table 2.

The mailing list and the sample (2)

Range of employees	**Mailing list**		**Sample**	
	Number	%	Number	%
From 1 to 10	6513	43.0%	211	44.0%
From 11 to 20	3261	21.5%	103	21.5%
From 21 to 50	3234	21.3%	102	21.3%
From 51 to 100	1194	7.9%	35	7.3%
From 101 to 150	391	2.6%	11	2.3%
From 151 to 200	200	1.3%	6	1.3%
From 201 to 350	266	1.8%	8	1.7%
From 351 to 500	99	0.7%	4	0.8%
Total	15157	100.0%	480	100.0%

Table 3.

Sampled family firms without and with a board of directors

	Family firms WITHOUT a board (155 cases)					Family firms WITH a board (243 cases)				
	Mean	Median	Std. Deviation	Minimum	Maximum	Mean	Median	Std. Deviation	Minimum	Maximum
Year of foundation of the firm	1980	1974	18,96	1874	1995	1969	1962	27,23	1807	1997
# of employees	22,30	42,1	73,93	1,00	479,00	27,50	70,9	100,52	1,00	500,00
Generation involved	1,82	2,0	,83	1,00	6,00	2,17	2,0	,90	1,00	6,00
# of shareholders	2,87	3,00	1,30	2,00	17,00	4,02	3,00	2,97	2,00	26,00
# of family shareholders	2,54	2,00	1,22	1,00	15,00	3,55	3,00	2,63	1,00	25,00
% of family ownership	93,40	100,00	14,45	50,00	100,00	93,62	100,00	14,01	50,00	100,00
% of shares held by the largest shareholder	54,21	50,00	29,15	1,00	100,00	43,12	40,00	21,83	5,00	99,60
# of board members	,00	,00	,00	,00	,00	3,79	3,00	1,42	2,00	11,00
# of family board members	,00	,00	,00	,00	,00	3,18	3,00	1,27	1,00	8,00
# of shareholders meetings	2,71	1,50	3,52	1,00	12,00	2,36	2,00	2,24	1,00	12,00
# of board meetings	,00	,00	,00	,00	,00	3,10	3,00	2,48	1,00	12,00
# of family council meetings	4,93	4,50	30,58	1,00	22,00	5,12	5,00	18,51	1,00	18,00

**** 2 tailed sig < .001*
*** 2 tailed sig < .05*
** 2 tailed sig < .1*

Table 4.

Sampled family firms without and with a family council

	Family firms WITHOUT family council (135 cases)					Family firms WITH family council (108 cases)				
	Mean	Median	Std. Deviation	Minimum	Maximum	Mean	Median	Std. Deviation	Minimum	Maximum
Year of foundation of the firm	1970	1965	22,28	1900	1997	1967*	1959	32,15	1807	1995
# of employees	27,00	74,0	102,04	1,00	500,00	30,00	67,0	98,95	2,00	496,00
Generation involved	2,10	2,0	,85	1,00	5,00	2,26	2,0	,94	1,00	6,00
# of shareholders	4,19	3,00	3,75	2,00	26,00	3,81	4,00	1,52	2,00	9,00
# of family shareholders	2,50	3,00	3,27	1,00	25,00	3.46***	4,00	1,50	1,00	18,00
% of family ownership	90,45	100,00	16,55	50,00	100,00	97,58	100,00	8,53	54,00	100,00
% of shares held by the largest shareholder	44,62	44,00	23,69	5,00	99,60	41,04	39,00	18,88	10,00	91,00
# of board members	3,78	3,00	1,57	2,00	11,00	3,80	4,00	1,21	2,00	8,00
# of family board members	2,91	3,00	1,33	1,00	8,00	3,50	3,00	1,13	1,00	7,00
# of shareholders meetings	1,88	2,00	1,09	1,00	6,00	2,76	2,00	2,82	1,00	12,00
# of board meetings	2,98	3,00	2,03	1,00	12,00	3,26	2,00	2,99	1,00	12,00
# of family council meetings	,00	,00	,00	,00	,00	12,71	6,00	27,54	1,00	18,00

**** 2 tailed sig < .001*
*** 2 tailed sig < .05*
** 2 tailed sig < .1*

Table 5.

Governance mechanisms and governance roles: family firms without family councils (group 1) and family firms with family councils (group 2).

Corporate governance roles	Shareholders' meeting		Board of directors		CEO		*Family council*	
	Group 1 mean Family firms without Family Council	Group 2 mean Family firms with Family Council	Group 1 mean Family firms without Family Council	Group 2 mean Family firms with Family Council	Group 1 mean Family firms without Family Council	Group 2 mean Family firms with Family Council	*Group 1 mean* *Family firms without Family Council*	*Group 2 mean* *Family firms with Family Council*
Ownership role	**H1a** **36.9%**	**18.9%****	12.7%	7.0%**	14.5%	9.8%	*0%*	*53,9%*
Monitoring role	16.7%	10.1%*	**H1b** **19.3%**	**8.8%****	26.8%	23.6%	*0%*	*42.7%*
Leading role	13.3%	8.3%	16.6%	9.2%*	**H1c** **32.8%**	**23.8%**	*0%*	*38.8%*

*** 2 tailed sig. < .05*

** 2 tailed sig. < .1*

Figures used in testing the hypotheses are in bold.

Table 6.
MANOVA results for comparison of family firms without family councils (group 1) and family firms with family councils (group 2).

	Wilks' Lambda	F	Sig.	Hypothesis 1a Ownership role of the shareholders' meeting			Hypothesis 1b Monitoring role of the BOD			Hypothesis 1c Leading role of the CEO		
				Type III Sum of Squares	F	Sig.	Type III Sum of Squares	F	Sig.	Type III Sum of Squares	F	Sig.
Corrected model				2,487	2,171	,022 **	1,742	2,091	,027 **	2,564	1,425	,172
Intercept	,967	2,013	,114	,013	,112	,738	,027	,321	,572	,926	5,148	,024 **
Family council	,901	6,419	,000 **	1,221	10,661	,001 **	,477	5,724	,018 **	,374	2,078	,151
Year of foundation	,968	2,010	,115	,000	,000	,991	,029	,345	,558	,456	2,534	,124
# of employees	,992	,499	,684	,013	,117	,732	,099	1,188	,277	,014	,077	,782
Manufacturing	,997	,183	,908	,003	,023	,880	,030	,363	,547	,018	,102	,750
Generation involved	,988	,707	,549	,083	,721	,397	,024	,292	,590	,247	1,371	,243
# of shareholders	,994	,350	,789	,033	,292	,590	,058	,698	,404	,037	,205	,651
# of family shareholders	,989	,629	,597	,027	,240	,625	,120	1,444	,231	,087	,482	,489
# of board members	,974	1,582	,196	,065	,568	,452	,156	1,873	,178	,029	,159	,691
% of family ownership	,966	2,012	,113	,334	2,916	,190	,000	,002	,967	,273	1,519	,219
# of family board members	,967	2,013	,114	,249	2,177	,142	,234	2,809	,119	,001	,007	,933
Error				20,275			14,742			31,845		
Total				37,563			20,556			50,500		
Corrected Total				22,762			16,484			34,410		

**** 2 tailed sig < .001*
*** 2 tailed sig < .05*
** 2 tailed sig < .1*

Table 7.
Governance mechanisms, governance roles and tasks:
family firms without family councils (group 1) and family firms with family councils (group 2)

		Shareholders' meeting		Board of directors		CEO		Family council	
		Group 1 mean Without Family Council	Group 2 mean With Family Council	Group 1 mean Without Family Council	Group 2 mean With Family Council	Group 1 mean Without Family Council	Group 2 mean With Family Council	Group 1 mean Without Family Council	Group 2 mean With Family Council
Ownership role	Choosing board members	**43.4%**	**24.1%**	16.7%	10.1%	17.0%	8.3%	0.0%	60.3%
	Controlling and evaluating the board and its performances	**39.7%**	**16.5%**	8.7%	10.1%	12.0%	8.3%	0.0%	52.4%
Monitoring role	Taking strategy decisions	12.9%	8.5%	**37.2%**	**12.0%**	37.0%	28.9%	0.0%	45.4%
	Approving strategic plans	12.9%	10.1%	**16.1%**	**13.9%**	36.7%	26.4%	0.0%	39.5%
	Choosing and evaluating the CEO	29.2%	14.0%	**15.5%**	**6.1%**	19.7%	6.3%	0.0%	66.0%
	Controlling CEO, managers	11.8%	7.8%	**6.0%**	**5.6%**	13.8%	32.7%	0.0%	28.6%
Leading role	Formulating strategic plans	14.0%	8.3%	20.9%	11.2%	**31.2%**	**7.9%**	0.0%	44.7%
	Defining and controlling annual budgets	11.1%	7.4%	11.8%	8.2%	**16.0%**	**24.5%**	0.0%	31.9%
	Choosing and evaluating management	14.8%	9.2%	17.1%	8.2%	**31.4%**	**23.5%**	0.0%	41.3%
Family governance role	Designing and managing family-firm relationships	25.8%	7.8%	8.7%	5.9%	15.6%	8.7%	0.0%	66.8%
	Planning generation transition	23.4%	7.8%	7.1%	2.9%	10.2%	8.7%	0.0%	68.8%

Table 8.
MANOVA results for sub samples of manufacturing family firms and non manufacturing family firms.

Non manufacturing family firms

	Wilks' Lambda	F	Sig.	Hypothesis 1a Ownership role of the shareholders' meeting			Hypothesis 1b Monitoring role of the BOD			Hypothesis 1c Leading role of the CEO		
				Type III Sum of Squares	F	Sig.	Type III Sum of Squares	F	Sig.	Type III Sum of Squares	F	Sig.
Corrected model				2,181	2,367	,018 **	1,870	2,222	,029 **	,731	,386	,949
Intercept	,963	1,262	,292	,030	,294	,589	,047	,627	,430	,505	3,058	,083 *
Family council	,865	5,101	,003 **	,681	6,655	,011 **	,336	4,467	,053 *	,256	1,549	,217
Year of foundation	,952	1,638	,186	,055	,535	,466	,045	,597	,442	,646	3,909	,051 *
# of employees	,981	,646	,588	,151	1,472	,228	,009	,118	,732	,048	,291	,591
Generation involved	,961	1,334	,268	,081	,791	,376	,048	,638	,438	,016	,096	,757
# of shareholders	,985	,503	,681	,015	,143	,707	,051	,679	,412	,162	,980	,325
# of family shareholders	,979	,705	,551	,011	,104	,747	,072	,963	,329	,239	1,445	,232
# of board members	,976	,808	,492	,033	,320	,573	,159	2,115	,149	,002	,013	,908
% of family ownership	,954	1,589	,197	,157	1,535	,218	,011	,140	,709	,408	2,469	,119
# of family board members	,962	1,307	,277	,238	2,324	,131	,123	1,633	,204	,009	,055	,815
Error				10,237			7,522			16,528		
Total				20,875			10,667			29,000		
Corrected Total				12,418			8,339			20,264		

Manufacturing family firms

	Wilks' Lambda	F	Sig.	Hypothesis 1a Ownership role of the shareholders' meeting			Hypothesis 1b Monitoring role of the BOD			Hypothesis 1c Leading role of the CEO		
				Type III Sum of Squares	F	Sig.	Type III Sum of Squares	F	Sig.	Type III Sum of Squares	F	Sig.
Corrected model				2,063	2,327	,019 **	1,830	2,214	,031 **	,631	,356	,952
Intercept	1,000	.	.	,000	.	.	,000	.	.	,000	.	.
Family council	,890	2,756	,049 **	,639	4,684	,034 **	,385	4,196	,044 **	,063	,320	,574
Year of foundation	,928	1,733	,169	,087	,635	,428	,292	3,184	,079 *	,160	,815	,370
# of employees	,947	1,248	,299	,016	,119	,731	,276	3,008	,087 *	,068	,347	,558
Generation involved	,952	1,134	,342	,000	,000	,982	,107	1,161	,285	,364	1,849	,178
# of shareholders	,982	,414	,744	,101	,739	,393	,050	,546	,463	,000	,001	,981
# of family shareholders	,973	,631	,598	,069	,509	,478	,138	1,505	,224	,007	,036	,850
# of board members	,978	,492	,689	,000	,003	,956	,138	1,508	,224	,004	,022	,882
% of family ownership	,977	,525	,667	,187	1,367	,246	,026	,288	,593	,030	,153	,697
# of family board members	,969	,708	,551	,022	,159	,691	,179	1,953	,167	,012	,063	,802
Error				9,418			6,336			13,578		
Total				16,938			9,889			21,500		
Corrected Total				10,386			8,166			14,209		

Table 9.
MANOVA results for sub samples of manufacturing family firms with the presence of a family shareholder with more or at least 50% of the shares and family firms with the presence of a family shareholder with less than 50% of the shares.

Family firms with the presence of a family shareholder with more or at least 50% of the shares

	Wilks' Lambda	F	Sig.	Hypothesis 1a Ownership role of the shareholders' meeting			Hypothesis 1b Monitoring role of the BOD			Hypothesis 1c Leading role of the CEO		
				Type III Sum of Squares	F	Sig.	Type III Sum of Squares	F	Sig.	Type III Sum of Squares	F	Sig.
Corrected model				2,835	2,310	,018 **	1,930	2,293	,028 **	1,334	,732	,693
Intercept	,973	,867	,461	,027	,219	,641	,141	1,495	,224	,105	,574	,451
Family council	,934	2,184	,095 *	,575	4,686	,033 **	,456	4,838	,030 **	,019	,103	,749
Year of foundation	,974	,811	,491	,004	,033	,856	,136	1,444	,233	,120	,661	,418
# of employees	,978	,694	,558	,047	,384	,537	,024	,256	,614	,274	1,502	,223
Manufacturing	,995	,163	,921	,044	,355	,553	,011	,113	,737	,014	,076	,784
Generation involved	,985	,458	,712	,028	,226	,635	,001	,006	,938	,218	1,195	,277
# of shareholders	,975	,794	,500	,153	1,248	,267	,036	,379	,539	,206	1,132	,290
# of family shareholders	,969	,986	,403	,142	1,159	,285	,067	,710	,402	,292	1,603	,209
# of board members	,994	,190	,903	,010	,080	,778	,001	,011	,917	,097	,532	,467
% of family ownership	,946	1,734	,166	,233	1,900	,171	,003	,035	,852	,166	,912	,342
# of family board members	,989	,356	,785	,010	,079	,779	,005	,052	,820	,174	,955	,331
Error				11,534			8,854			17,128		
Total				22,500			12,111			26,750		
Corrected Total				13,050			9,774			18,462		

Family firms with the presence of a family shareholder with less than 50% of the shares

	Wilks' Lambda	F	Sig.	Hypothesis 1a Ownership role of the shareholders' meeting			Hypothesis 1b Monitoring role of the BOD			Hypothesis 1c Leading role of the CEO		
				Type III Sum of Squares	F	Sig.	Type III Sum of Squares	F	Sig.	Type III Sum of Squares	F	Sig.
Corrected model				2,476	2,018	,020 **	1,867	2,219	,029 **	3,492	1,912	,061 *
Intercept	,924	1,552	,211	,091	,783	,380	,033	,437	,511	,742	4,060	,048 **
Family council	,849	3,373	,024 **	,587	5,036	,029 **	,325	4,304	,042 **	,094	,532	,458
Year of foundation	,913	1,805	,157	,122	1,047	,310	,033	,434	,513	,845	4,627	,036 **
# of employees	,901	2,091	,111	,145	1,246	,269	,017	,226	,636	,099	,542	,464
Manufacturing	,967	,653	,584	,129	1,104	,298	,015	,197	,659	,091	,498	,483
Generation involved	,940	1,207	,315	,377	3,234	,077 *	,068	,899	,347	,005	,026	,872
# of shareholders	,951	,974	,411	,317	2,721	,104	,006	,076	,784	,066	,361	,550
# of family shareholders	,942	1,180	,326	,383	3,286	,075 *	,010	,133	,717	,002	,011	,918
# of board members	,917	1,718	,173	,240	2,057	,157	,103	1,365	,247	,194	1,063	,307
% of family ownership	,985	,290	,832	,029	,248	,621	,000	,005	,946	,122	,666	,418
# of family board members	,927	1,490	,227	,266	2,280	,136	,080	1,063	,307	,108	,590	,446
Error				6,873			4,450			10,779		
Total				14,375			7,222			22,500		
Corrected Total				8,661			5,697			14,271		

Appendix 1: Measurement model results for the three governance roles

	Latent variables	Number of Items	Internal consistency	Average variance extracted	Correlations between latent variables		
					1	2	3
1	OWNERSHIP ROLE OF THE SHAREHOLDERS' MEETING	2	0,917	0,85	0,920		
2	MONITORING ROLE OF THE BOD	4	0,914	0,73	0,410	0,855	
3	LEADING ROLE OF THE CEO	3	0,917	0,79	0,170	-0,010	0,460

	Measurements paths	Items	Unstardized estimates	t	Error Variance	Sig.	Item reliability
1	OWNERSHIP ROLE OF THE SHAREHOLDERS' MEETING						
	Choosing board members	Q1	0,88	31,30	0,110	***	True
	Controlling and evaluating the board and its performances	Q2	0,78	32,91	0,140	***	True
2	MONITORING ROLE OF THE BOD						
	Taking strategy decisions	Q3	0,62	40,26	0,099	***	True
	Approving strategic plans	Q4	0,59	40,65	0,100	***	True
	Choosing and evaluating the CEO	Q5	0,45	36,39	0,114	***	True
	Controlling CEO, managers	Q6	0,48	36,61	0,117	***	True
3	LEADING ROLE OF THE CEO						
	Formulating strategic plans	Q7	0,54	35,04	0,071	***	True
	Defining and controlling annual budgets	Q8	0,56	34,94	0,070	***	True
	Choosing and evaluating management	Q9	0,48	32,35	0,086	***	True

Values of the Critical ratio greater than 1.64, 1.96, and 2.32 are statistically significant at 90%, 95%, and 99% confidence level, respectively. *** $p<0.01$, ** $p<0.05$, and * $p<0.1$.